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EFFECTS OF INTERNATIONAL ECONOMIC DISINTEGRATION IN THE CASE OF BREXIT

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Abstract

Although in recent years, even decades, there has been a trend towards closer connection between countries for joint action and performance on the world political and economic scene, we are currently witnessing something quite the opposite. One of the most powerful integrations in the world - the European Union (EU) is faced with a tough test: for the first time in its history, it is confronted with the intention of the member state to leave the integration. Being a part of the integration has brought many benefits to its members, but also some limitations. At the moment, these limitations in the eyes of the authorities and the people of the United Kingdom (UK) seem much greater than the benefits gained from the membership. While many experts warn that the progress of the United Kingdom cannot be planned separately from the European Union, others claim that by regaining independence it will overcome many obstacles to faster development. One thing is certain – leaving the EU will not be an easy process, but will require extensive negotiations and analysis. Changes resulting from such a decision will be significant, particularly in the economy, and will have a strong impact on the UK's future foreign relations with the rest of the Europe and the world. Static effects of integration are realized shortly after its formation, and two basic ones are trade creation and trade diversion. Dynamic effects are the result of market expansion and are related to the use of the effects of economies of scale and increased competition. All of the above leads to a reduction in prices, increased efficiency of the company, a greater degree of innovation and, in the final instance, to the faster economic growth and development. Withdrawal from the EU will change these relations dramatically. It is difficult to determine all the possible effects of leaving the Union and to assess the final outcome because a clear direction of this unfolding process cannot yet be predicted.

Key words: membership, the European Union, free trade effects, negotiations, alternatives.

ЕФЕКТИ МЕЂУНАРОДНЕ ЕКОНОМСКЕ ДЕЗИНТЕГРАЦИЈЕ НА ПРИМЕРУ БРЕГЗИТА

Апстракт

Иако је последњих година, па и деценија, присутан тренд све чвршћег повезивања земаља ради заједничког деловања и наступа на светској политичкој и економској сцени, тренутно сведочимо нечему сасвим супротном. Једна од најмоћнијих интеграција у свету – Европска унија – налази се пред незгодним тестом: први пут у својој историји суочава се са намером неке од чланица да се осамостали. Бити део интеграције донело је бројне предности њеним чланицама, али и одређена ограничења. Тренутно та ограничења у очима власти и народа Велике Британије делују знатно већа него користи остварене чланством. И док бројни стручњаци упозоравају на то да се напредак Велике Британије не може планирати независно од Европске уније, други тврде да ће се повратком независности превазићи многе препреке бржем развоју. Једно је сигурно – напуштање Европске уније неће бити нимало једноставан процес, већ ће захтевати исцрпне преговоре и анализе. Промене настале таквом одлуком ће бити значајне, посебно у економском смислу, и имаће снажан утицај на будуће спољнотрговинске односе Британије са остатком Европе и света. Статички ефекти интеграције остварују се у кратком року након њеног формирања, а два основна су стварање и скретање трговине. Динамички ефекти су резултат ширења тржишта и односе се на коришћење ефеката економије обима и повећање конкуренције. Све набројано доводи до снижавања цена, повећања ефикасности предузећа, већег степена иновативности и, у крајњој инстанци, бржег економског раста и развоја. Напуштањем ЕУ, ови односи се драматично мењају. Тешко је утврдити све могуће ефекте изласка из Уније и оценити какав ће бити коначан исход јер се још увек не може предвидети јасан правац даљег одвијања целокупног поступка.

Кључне речи: чланство, Европска унија, слободна трговина, ефекти, преговори, алтернативе.

INTRODUCTION

Nowadays, with the intense globalization process and faster than ever technology development, it is difficult to imagine the existence of some country isolated from the rest of the world. It is considered that no country can function independently because it is unable to produce everything its population and economy need. Therefore, foreign trade, or openness of the country and its engagement in international flows, could be significant for its economic growth and development (Stanišić, Janković, Milovanović, 2017). We are witnessing various forms of national, regional and international integrations. However, slightly more than half of British voters (closely to 52%) on referendum held on June 23, 2016 decided that the United Kingdom should leave the European Union. This ended the debate on membership, which had been going on for years. Since the decision about “Brexit” has recently been supported by the UK Parliament and the Queen has formally given her consent, the Article 50 of the Treaty of Lisbon has been triggered and the process of leaving the EU has formally started. Although the referendum gave a response to the dilemma that has been present on the Island for a long time, many more important issues have been raised.

Since none of the member states has left the EU so far (except for some colonial territories after the liberation from today's members), there is a lot of uncertainty about the way withdrawal process will run. The Treaty on European Union indicates that, after the decision to leave the integration is made, and Article 50 is initiated, a two year period begins, during which the two parties should reach an agreement. Still, many experts emphasize that it is not realistic to expect the secession from the Union to end so quickly and believe that negotiations will require much more time. It is probably in a best way illustrated by the statement of the Government officials themselves, who indicated that "a vote to leave the EU would be the start, not the end, of a process; it could lead to up to a decade or more of uncertainty" (HM Government, 2016).

It is very difficult, almost impossible, to determine with certainty what kind and intensity of effects will the withdrawal from the EU cause since they will primarily depend on the future signed agreements. Considering that foreign trade is one of the areas which will be the most affected, this paper attempts to present the significance of the EU membership for UK's foreign trade relations. The purpose of the paper is to determine the weight of voters' final decision and to discover the potential effects on trade, relying on previously conducted studies.

During the examination of the subject of research, different methods of research will be used in accordance with the aim of the paper:

Historical – legal method – It will provide an explanation of the genesis of the problem from the aspect of time. It is necessary for the introductory presentation of the core issue of exit from the EU; Analysis of foreign and national literature – Literature analysis is necessary not only as the addition to research material, but also for presenting attitudes of various experts about the role and significance of creating and diverting trade between Britain and EU; Philosophical – legal method – This method is necessary for the expression of one's own attitude and opinion on field of research. Besides that, this method is also needed for creating an attitude towards different comprehensions of the importance of the EU membership presented in national and foreign literature; Comparative method – In order to compare identical phenomena (effects of creating and diverting trade on the growth of gross domestic product within the EU and UK), comparative method will be applied for the observed period of time and defined space; Statistical methods – These methods are required for displaying and processing relevant data through appropriate time series, indexes, tabular forms… Dialectical method – The purpose of using this method is to investigate, in a more reasonable way, the cause-and-effect relations between actions of withdrawal from the EU and expected results that would be achieved in UK's trade with the Union; Inductive and deductive method – Deduction is of great importance for defining the initial hypotheses. Inductive method will be applied in procedures for presenting certain facts about the role of the EU and the UK in the system of global financial relations and in defining the initial hypotheses; Method of analysis and synthesis will be used in terms of collection, selection, processing and analysis of theoretical material related to the process of Brexit;

Through the review of results of the most significant researches in this filed, the advantages and disadvantages of the EU membership, some of the potential arrangements for managing future relations with the EU and rest of the world, the expected outcomes of some of the possible scenarios will be presented.

LITERATURE REVIEW

As intentions to leave the EU have become stronger over years, numerous experts in different fields have begun to explore potential effects of this decision. Majority of them has paid the most attention to the possible economic consequences. In its final report "The economic consequences of leaving the EU", Centre for European Reform (CER) which gathered a number of economists, business people and specialists, accentuated the high integration of UK economy with the rest of the Union (Springford, Tilford, McCan, Whyte & Odendahl, 2016). Special attention has been focused on the impact of the EU membership on the British trade and foreign trade relations, besides analyses of consequences of immigration on domestic earnings and employment, of regulatory compliance with the EU law and fiscal obligations. The conclusion was more than clear – leaving the EU would "cost" the UK a lot and the only way to minimize losses is to define a future agreement with the EU in a way that will allow it to have an open access to the single market, as close as what it has now. Constructing a model which would show how much of the trade is attributable to the membership, CER came to the results that British trade with the rest of the EU is 55% higher than it would be expected, amounting to more than £100 billion, considering the value of UK's trade with the Union in recent years.

Various studies dealing with the economic effects of Brexit have ascertained several options, by analyzing different ways in which the future relationship between the UK and the EU could be arranged, and presented the possible outcomes of each of them. The optimistic scenario is the one in which the UK would negotiate a Free Trade Agreement with the EU, obtain full access to the single market, while eliminating tariffs and minimizing non-tariff barriers. The pessimistic scenario implies that, after the exit, the UK would trade with the Union under the terms of the

World Trade Organization (WTO), which would involve high tariffs and significant non-tariff barriers.

Researchers at London School of Economics (Dinghra, Ottaviano, Sampson & Van Reenen, 2016) have observed possible changes in trading costs and fiscal savings in different scenarios. The results showed that, even in the best case, a fall in the UK income can be expected, for around 1.3%, while in the worst case, when trade with the EU is carried out under WTO rules, the loss could be much higher, even 2.6%. The estimation of long-term effects, which took into account the impact on productivity growth as well, is far more alarming. Free access to the EU single market enables realization of economies of scale, increases competitive pressure and stimulates innovations, which leads to productivity growth. Without these benefits, the UK could face an overall loss from 6.3% to even 9.5% GDP.

Other studies showed similar results, which made Brexit a trending topic and raised some serious doubts about whether it was a smart decision. One of the most renowned professional services companies - PricewaterhouseCoopers LLP (PwC) - at the request of Confederation of British Industry, in its report "Leaving the European Union: Implications for the UK economy" gave a detailed estimation of the potential economic outcomes of the exit (PwC, 2016). Besides inevitable uncertainty and risk increase, a reduction of fiscal expenditure, fewer immigrants and somewhat lower regulatory costs were also predicted. But what causes biggest concerns for economists is a reduction in trade and investment that can't be avoided. The analysis included two different periods of time, the short-term which refers to the period immediately after the referendum until 2019, and long-term related to the years after, from 2020 to 2030, by when it is expected that relations with the EU and the rest of the world would be already fully established, the situation would be stabilized and the initial uncertainty would disappear. Obtained results showed an undeniable decline in GDP. In best case, in the short-term this decline would be around 3%, mostly caused by uncertainty, while in the long-term the reduction would be around 1.2%. However, in the worst case scenario figures are much larger. For the first few years after the exit, the estimated reduction of UK GDP is around 5.5%, while in the longer term, the withdrawal from the EU could result in 3.5% lower GDP than if the UK remained in the Union. It is predicted that about 0.5% of that reduction could be attributed to the trade impact, even if the UK negotiated a Free Trade Agreement with the EU, while under the WTO scenario this effect would range from around 1.7% in short term, up to 2.1% in years after.

Experts at Her Majesty's Treasury - the Government's economic and finance ministry – in theirs analysis of the effects of the EU membership on British economy and some of the possible future arrangements, have estimated that any alternative agreement with the Union after the exit would cause significant economic loss (HM Treasury, 2016). Such a conclusion was made on the basis that any other negotiated arrangement with the EU wouldn't offer as many advantages as the membership and wouldn't allow full access to the single market, which would increase costs of trade and make the country less attractive for foreign investment. Their assessment of the impact of Brexit on trade and foreign direct investment and how it would in the long run, after 15 years, affect productivity and UK's national income showed that it would cause a significant decline in GDP and that the UK would be worse off outside the EU under every scenario modelled. It is estimated that 15 years later the UK would have between 3.4% and 4.3% higher GDP if it remained in the Union comparing to the potential membership in European Economic Area (EEA) after the exit. Therefore, being a part of the EEA instead of the EU would lead to annual GDP loss of £2.600 per household. The loss would be even greater if the UK's post-exit relationship with the EU was established through a bilateral agreement. Comparing to that scenario, predictions are that British GDP would be around 4.6% to 7.8% higher by staying in the EU, which would also mean a loss of about £4.300 per year for each household in the case of such arrangement. The worst-case scenario, trade under the rules of the WTO, after period of 15 years could cause lower GDP for about 5.4% to 9.5% and annual loss of £5.200 per household. The report has stated that despite considerably lower fiscal costs for the UK outside the EU, none of the alternatives could provide such economic benefits as membership itself.

The Organization for Economic Co-operation and Development (OECD) has also presented its analysis of Brexit in the policy paper "The Economic Consequences of Brexit: A Taxing Decision" indicating that leaving the EU would cause permanent and heavy losses to the UK economy (OECD, 2016). Estimates were based on a number of assumptions, such as that national economy would face a noticeable deterioration in financial conditions, greater uncertainty and mistrust in the short term, along with high trade barriers and a decline in the skillful labor force, especially in the long run. Regardless of how the future relationship between the UK and the EU is arranged, the volume of trade and financial activities is projected to be significantly lower. With all of this in mind, it was estimated that leaving the Union could cause around 3.3% decrease in UK's GDP by 2020, while in the long term this decline could be even greater, about 5.1% (by 2030).

International Monetary Fund (IMF) was also among institutions which have analyzed the economic effects of Brexit. In its report, the Fund corrected previous estimates of UK's GDP growth due to uncertainty about future economic relations with the EU countries and the rest of the world. New estimations indicated that UK's GDP could be lower for 1.4% by 2019, but in the worst case scenario the decrease could be around 5.6%.

THE ECONOMIC IMPACT OF EU MEMBERSHIP ON UK'S FOREIGN TRADE

The utmost benefit expected from the formation of a customs union (as well as any other form of economic integration) is to increase the welfare in all member states. That goal is achieved through dynamic, long-term integration effects. These effects are the result of market expansion, which becomes common, united at the integration level, and they refer to:

- Achieving economies of scale,
- Increase in competition.

All of the above leads to a reduction of prices and higher business efficiency, enhances innovation processes, and in the final instance accelerates economic growth and development. The improved productivity that the economy of a country can reach leads to prosperity and a higher rate of returns on investment in the production inputs, and all this together represents the key determinants of the country development (Krstić, Stanojević, Stanišić, 2016).

Static integration effects are achieved shortly after its formation and two basic ones are creation and diversion of trade. Trade creation refers to the growth in the volume of trade among member states, which leads to higher product specialization, better allocation of resources, increased employment within integration and ultimately to the growth of national income of member states. The increased trade is a result of tariffs and other trade barriers elimination between members of integration.

Trade diversion occurs when imported goods from countries outside the block are substituted with imports from members of the union. After the customs union is established (and therefore trade is tariff-free between member states) goods from countries outside the union, that had been imported so far, might become more expensive than goods with higher production costs originating from a member state, because the price of these goods is now being reduced by the amount of tariffs that have earlier existed.

During the second half of twentieth century, the volume of global trade has grown much faster than the global output. Reduction and elimination of tariffs and non-tariff barriers, new and cheaper modes of transport, followed by the development of modern technologies have made the entry into new foreign markets considerably easier. World trade has been rapidly expanding, based on the trade growth between developed countries themselves and with emerging economies as well. Considering that over 3/5 of total EU member states' trade in goods is conducted between themselves, it has become clear that Europe has emerged as a kind of regional trading center. A huge market for trade in goods and services has been created with a tendency of further expansion by way of the accession of new countries in the future (Marković, 2014).

The EU single market is broader and deeper than any other free trade area in the world. (HM Treasury, 2016). Over the last decade, trade within the EU has expanded slower than the trade with third countries, but it has still achieved a growth of 4 per cent a year (Chart 1). Such trend indicates that integration has not reached its maximum of internal trade yet and that opportunities are far from exhausted.

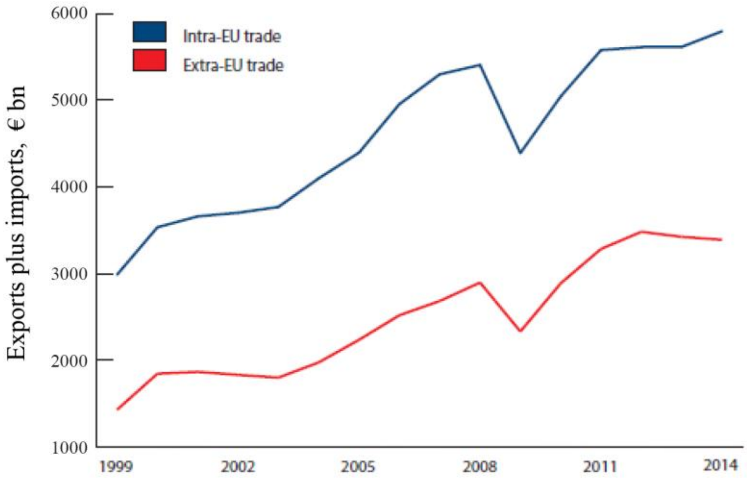

Chart 1. Trade between members of the EU and between the EU and the rest of the world

Source: Springford, J., Tilford S., McCann, P., Whyte P., Odendahl, C. (2016) *The economic consequences of leaving the EU – The final report of the CER commission on Brexit 2016*, Centre for European Reform (CER), London

The EU single market is built on so called “four freedoms” – the unrestricted movement of people, capital, goods and services over borders. The abolition of tariffs, the joint formulation of measures and procedures, as well as harmonization of regulations has boosted trade between the member states. Goods and services trade is conducted free of tariffs and other barriers, while creation of minimum common regulatory standards that must be met allows exporters to sell their goods unhindered across the single market, without having to comply with different rules and regulations of each member state. This has significantly reduced administrative costs. However, these advantages provided by the EU membership at the same time represent main constraints in trade with the third world countries. Adherence to the common external tariffs and other measures imposed on goods and services from states outside the block might divert trade away from low-cost countries outside the Union, regardless of their more affordable prices, towards member states. Possibility for establishing trade agreements with those non-EU countries and expanding the business into their markets is regarded as the biggest benefit of leaving the EU, bringing into question whether the trade with other member states should remain a priority for the UK.

Looking at the trends in UK trade in goods with the rest of the EU, OECD countries outside the EU and emerging economies, it could be noticed that after the initial expansion during the 1980s and 1990s, trade with other member states began to stagnate as trade with emerging economies rose. Still, the EU countries continue to dominate in foreign demand for British goods and services, given that even 46% of foreign demand for manufactured goods and around 40% of foreign demand for services comes from the EU, which is three times higher than US demand for British products and more than twice when it comes to demand for UK services. Speaking about BRIC countries (Brazil, Russia, India and China), share of their demand is about 8% and 10% respectively.

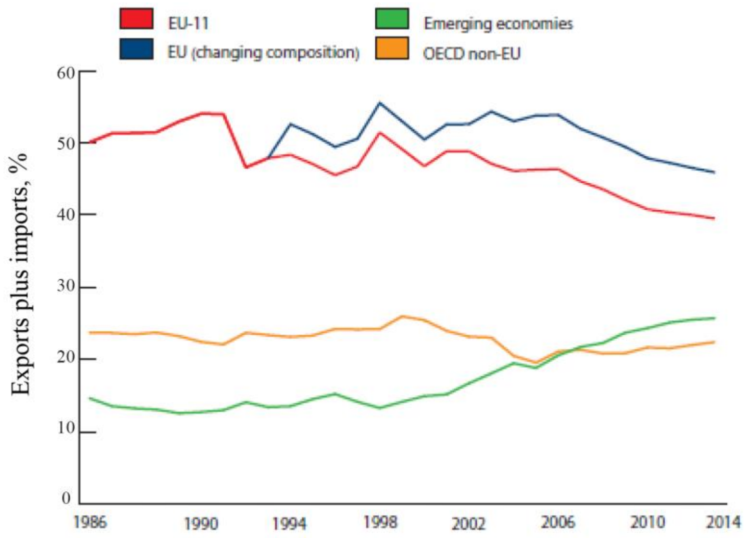

Chart 2. Trends in UK goods trade with the EU and the rest of the world
Source: Springford, J., Tilford S., McCann, P., Whyte P., Odendahl, C. (2016) *The economic consequences of leaving the EU – The final report of the CER commission on Brexit 2016,* Centre for European Reform (CER), London

Apart from the trade of final goods, the indirect effect that exit from the EU would have on domestic companies which provide intermediate goods and services for exporters' production process must not be ignored. In addition to that, high integration of British firms into the EU supply chains, which provide various services, from transport to financial services, also indicates that leaving the EU can significantly jeopardize their business and threaten the survival of national and international supply chains. The severity of consequences would vary depending on the sector. It is estimated that financial services would experience the biggest disruption in services sector, while automotive, aerospace, chemicals and pharmaceuticals industry would be the most vulnerable in the production sector, along with food and tobacco industry (Booth, Howarth, Persson, Ruparel, Swidlicki, 2015). The final effects on these, as well as on other sectors, will depend on future agreements negotiated with the EU after the exit and the extent to which the UK retains access to the single market.

Nevertheless, the fact that the rest of the EU represents the most significant market for British products and services is not unexpected and cannot be entirely attributed to the membership. Considering the development of other member states and their proximity to the British island, they would almost certainly be the UK's largest trading partners even if the single market didn't exist. On the other hand, claims that the EU membership has made the UK trade with the rest of the world more difficult and reduced its volume to the level much lower than it could have been achieved independently are very often unjustifiable.

In order to estimate the effects of EU membership on the UK trade, economic experts from The Centre for European Reform constructed a model that would determine the EU's impact on the creation and diversion of trade between the UK, the EU and its 30 major trading partners that are not members of the Union (Springford, Tilford, McCann, Whyte, Odendahl, 2016). Altogether, the trade with these countries makes about 90% of UK's trade. In order to get needed results, experts examined data on the total value of trade (imports and exports) conducted between the UK and 181 countries since 1992 until 2010. The analysis took into account the data on GDP of each country and their exchange rates, as well as other factors that affect trade relations. The obtained results indicated that the volume of UK's trade with the rest of the EU is 55% greater than it could be expected given the size of these countries' economies and other conditions. In 2014, trade with the EU countries amounted to £372 billion, meaning that this "effect of the EU membership" was about £132 billion. Using the model, authors came to the conclusion that there is no evidence that EU membership have had negative effects on UK's trade with states outside the block, although import of certain types of goods from third countries is considered to be somewhat smaller due to the common regulations and standards on the EU market and imposed tariffs that sometimes increase the prices. Still, higher UK's trade with other EU countries resulting from the membership is not achieved at the expense of trade with third countries, and the costs of trade diversion are negligible compared to the benefits of trade creation (HM Treasury, 2016). The gains from free trade with developed countries in the neighborhood are far surpassing those losses. The results implied that EU membership increased the UK's total trade for 35%.

The EU market is crucial for the UK services given its share in British services export and trade surplus. Even five of the seven sectors in which the UK has had a trade surplus with the EU are services sectors, with its leading exports being financial services and insurance (PwC, 2016). Besides that, the UK's services trade with the EU has grown at faster rate than with any other country (Chart 3).

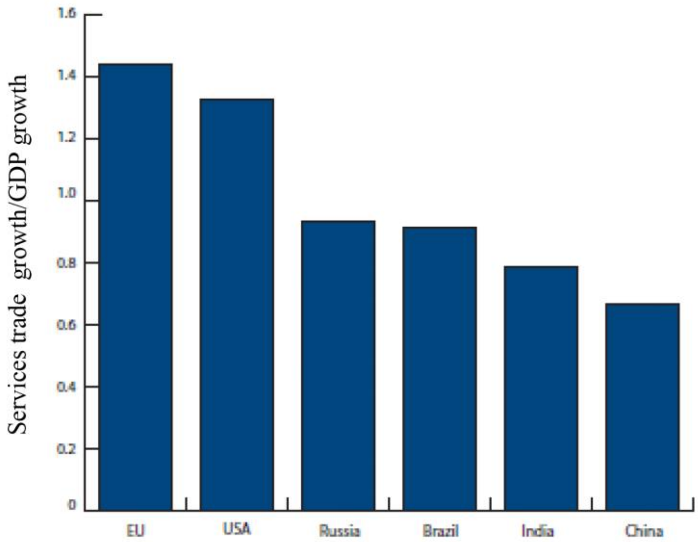

Chart 3. UK services trade growth with major partners, 1999-2015
Source: Springford, J., Tilford S., McCann, P., Whyte P., Odendahl, C. (2016) *The economic consequences of leaving the EU – The final report of the CER commission on Brexit 2016,* Centre for European Reform (CER), London

However, the question arises again as to whether such an outcome can be entirely ascribed to the EU membership. With the intention of making an adequate comparison and getting a more realistic picture of significance of individual countries and regions for UK's services trade, authors observed the rates of growth in British exports to a particular country/region, comparing them to theirs GDP growth (Springford, Tilford, McCann, Whyte, Odendahl, 2016). The analysis showed that since 1999 the UK's services trade with the Union has grown at around 1.5 times the rate of the EU economic growth. Despite the fact that trade in services with the US has grown at almost the same pace (around 5% a year), the result was somewhat worse than with the EU, when compared to their GDP growth. With regard to the emerging economies, the services trade with them increased fast between 1999 and 2015, but still fell behind the rate of their economic progress. The significance of the EU as a trade partner to the UK might be illustrated the best by the fact that in 2015 the value of the UK's services export to other member states was nine times higher than exports to the BRIC countries altogether. Therefore, the services sector will probably be one of the central issues in trade negotiations with the EU after the exit.

The Potential Effects of Leaving the EU for the UK Trade

The UK has been a "champion of a free trade" for a long time and such position has brought enormous benefits to the country in the form of greater wealth and innovation and consequently increased human welfare (Murray, Broomfield, 2014). Since the UK has been highly engaged in international trade flows and closely integrated with the rest of the Union, consequences of tariff and non-tariff barriers in the trade with the EU could be significant. It is almost impossible to predict their intensity because the final effects of Brexit will mainly depend on negotiated agreements between the UK and the EU after withdrawal.

Since Government officials announced that there is a possibility to leave the EU, many economists and financial experts have tried to determine what consequences that decision might cause to British economy. Changes in trade relations and contributions to the EU budget have been the most often considered when analyzing the effects of potential options for managing future relationship with the EU. The optimistic scenario has implied reaching a free trade agreement, followed with the minimum of customs restrictions. On the other hand, the most pessimistic scenario has referred to trading under the WTO rules, without trade liberalization. The results obtained in these studies suggested that in short term, even under the best case scenario, loss of 1.3% to 3.3% of GDP could be expected, while in the worst case this figure could go up to 5.5% (Dinghra, Ottaviano, Sampson, Van Reenen, 2016; PwC, 2016; OECD, 2016). Estimates are even worse when it comes to long term effects. Depending on the outcomes of negotiations, it is assumed that GDP loss could be between 2.1% and 9.5%, which would lead to an average annual loss of about £6.000 per British household (Dinghra, Ottaviano, Sampson, Van Reenen, 2016; PwC, 2016; OECD, 2016; HM Treasury, 2016).

The main reason why many Eurosceptics believe that the UK will be able to negotiate a convenient free trade agreement with the Union after the exit is its large trade deficit with the rest of the EU. If there were substantial barriers in mutual trade, the rest of the integration would suffer a greater loss due to restrictions on exports to the UK market. Therefore, it is in the EU's interest to keep good trade relations with the UK and keep an unrestricted access to its market. Then, released from the influence of Brussels and EU regulation, the UK would be available to act independently on the global market and sign trade agreements with other countries corresponding to its own interests. This claim is based on the idea that the UK itself has a strong position in the international relations, since it is one of the world's biggest economies, and thus it would be quite successful in trade negotiations. Besides that, it is believed that in 21st century the most successful will be those economies that are flexible enough to react rapidly on changing conditions in the world market, which in case of integrations is not always possible. Furthermore, the assertion that the EU members should be favored over other countries in trade because of their geographical proximity is not entirely correct. In the age of the internet it looks anachronistic, irrelevant and old-fashioned (Lea, Binley, 2012). Nevertheless, some of these arguments are quite simplistic and might be deceptive.

Expecting the UK to dominate in the trade negotiations with the EU and set its own rules and terms seems unrealistic. The single market is far more significant for British exporters than the UK market is for the rest of the EU manufacturers. The rest of the EU buys almost half of the UK's exports while the Island imports far less from other member states. In addition to that, the largest part of the EU export to the UK comes only from Germany and Netherlands, whilst most other members don't find British market as one of the major ones for selling their goods and services. Since reaching any trade agreement will require the consent of all 27 remaining EU members, some of which have different interests when it comes to the trade with the UK, it is still unclear how these negotiations might evolve.

It is important to emphasize that the UK's access to third countries' markets largely depends on the EU membership. In order to retain that access and opportunities it provides, the UK will have to negotiate and discuss the terms with each of those countries the EU currently has a free trade agreement with. Considering that the UK's export has a small share in world's total exports (slightly less than 3%) and that it is in constant decline due to emerging economies, which are gaining the momentum at the global market, it is clear that the UK alone will have a considerably weaker position in international trade negotiations. However, certainly the most important issue to be solved during the withdrawal process would be to decide how to arrange the future trade relations with the EU. The major concern will be the extent to which the UK will be able to retain access to the EU goods and services market and what compromises would that require.

Alternative Arrangements with the EU

The withdrawal from the Union leaves several potential options to the UK for establishing its trading relationship with the EU: membership of the European Economic Area (EEA; the so-called Norwegian model), a customs union, a set of bilateral agreement (also known as Swiss model), a free trade agreement (FTA) and trade under the terms of the World Trade Organization (WTO). The main differences between these scenarios are their level of access to the single market, obligations to implement EU rules and regulations, opportunity to participate in EU decision making and requirements to contribute to the EU's budget, not to mention their political feasibility and timeline to negotiate (Jackson, Akhtar, Mix, 2016). Still, none of these alternatives will provide a full access to all segments of the EU goods and services market, without any tariff and non-tariff barriers, as the membership allows.

Membership of the European Economic Area (Norway option)

The European Economic Area (EEA) includes the EU and three members of the European Free Trade Association (EFTA) – Norway, Iceland and Liechtenstein. This agreement basically represents a free trade agreement between the Union and the countries mentioned and provides the expansion of the single market and free movement of goods, services, people and capital, along with regulations related to the employment sector, consumer protection, environment and competition. If the UK decided to join the EEA after leaving the EU, its manufacturers would retain almost unlimited access to the single market. Some categories of goods, especially agricultural products, would not be exempted from tariffs and other non-tariff measures, but big part of the foreign trade would be conducted in the same way as now. However, the UK would not have the right to participate in formulation of the EU trade policy and would be excluded from the EU's trade agreements with other countries. Besides that, goods from the UK would be the subject to the rules of origin, which would cause additional costs and extensive paperwork. Although the UK would still have to comply with the EU regulations, without any influence, it would undoubtedly face a lower number of regulations as an EEA member. This is seen as a great advantage of the EU exit by many authors who claim that reduced number of bidding rules would bring a relief to British firms. Released from the regulatory imposition required by the EU membership, they would be able to significantly reduce their costs and improve their competitiveness in the global market. The huge benefit of this model is that these countries have a complete autonomy in setting up their foreign trade policy, charging tariffs to other countries and reaching free trade agreements. In addition, the UK would also have full control over its agricultural and fisheries policy, internal affairs and justice system. In regard to public finances, this option would not be the most convenient for the UK considering that Norway, although not a full member, makes significant contributions to the EU budget.

A Customs Union

One of the potential ways of arranging a relationship with the EU in the future is establishing a customs union, of a kind that the Union currently has with Turkey. In that case, the mutual trade between the UK and the EU would be conducted free of customs duties, while common external tariffs would be imposed on goods and services from third countries. Still, how significant a British impact would be in such relationship remains an open question, given that in the EU – Turkey arrangement all the issues are mainly decided in Brussels. Turkey must also follow the EU's preferential agreements with non-European countries, but does not benefit from the trade deals the EU has with other countries, who continue to apply tariffs on Turkey's exports (Springford, Tilford, McCann, Whyte, Odendahl, 2016). The agreement between the EU and Turkey is often said to represent a limited customs union considering that, although it gives Turkey an open access to the single market for wide range of goods, it does not apply to agricultural goods or services. This model would not allow the UK to influence the EU's trade policy, while it would have to agree with it. Not only would British manufacturers have to harmonize their products with EU standards, but the UK would still have to comply with most of the EU legislation. If it did not, the access to the single market would be restricted.

The Swiss Model

Given that the strong influence of Brussels and the imposition of the EU regulations are some of the main reasons for opposing the membership, previous options are unlikely to be the most desired since, even after leaving, the UK would have to abide by the EU legislation. An agreement similar to the Swiss model would probably be more acceptable. Switzerland participates in specific parts of the single market on the basis of a free trade agreement dating from 1972 and a series of bilateral agreements concluded with the EU in 1999 and 2004 (Booth, Howarth, Persson, Ruparel, Swidlicki, 2015). They include 20 principal and 100 supplementary agreements, each covering a specific sector of the market. The main disadvantage of this model is that is does not provide free access to the entire single market, but it must be agreed for each sector separately. In the case of Switzerland, the trade of goods is covered by the agreement, but services trade is quite constrained, allowed only at the certain segments for which the consent has been given. Considering the significance and development of the UK services sector, this option does not seem satisfactory. However, membership costs would be far less since Switzerland is not part of the Common Agricultural Policy, Common Fisheries Policy and Regional Policy so it is not obliged to make payments to the EU budget. Still, since 2006 it has been involved in the EU regional development by providing financial aid to the new EU members. The best part of this type of agreement is that it would not affect UK's relations with other countries, so it would have a complete freedom in defining its foreign trade policy. Although this option does not assume having a common law institutions with the EU, the British would certainly have to develop its legislation so that it is equivalent to the EU's in order to retain the access to the single market. As this type of arrangement requires a constant revision of bilateral agreements and renegotiations, which is a very complex process and takes lot of time, establishing the relationship this way is not considered as a formal model that could be repeated again. Actually, the UK may even stay without the possibility of reaching such an arrangement at all.

Free Trade Agreement

After withdrawal, the UK could sign a free trade agreement with the Union. Trade with member states would be conducted without restrictions while the UK would be in control of its trade policy towards other countries and able to manage it on its own. This way, it could liberalize its foreign trade to the extent that corresponds to the national interests without the obligation to agree with the rest of the EU members and to obey instructions from the EU authorities. The exit could lead to reduction in prices of imported goods from countries outside the EU, assuming that import duties would be lower than those currently levied by the EU. Given the mutual significance and strong interconnection between the British and the EU market, it is believed that there are great chances to reach such an agreement and that the EU tariffs on most of the British goods would be eliminated. However, it is quite certain that in this case the UK would not be able to independently set its own regulations. The more comprehensive the trade agreement, the more EU rules would have to be followed. There is no doubt that the UK manufacturers would still have to design their products and production methods in accordance with EU standards and technical specifications in order to continue to offer their products on the single market. Considering the exceptionally high share of services in the British export, for the UK would be crucial to include services sector in the free trade agreement with the EU. According to some predictions, such an agreement could, at best, provide the UK with free access to the EU services market, but it would certainly be unable to influence its further liberalization. Trade in services with many countries outside the Union could decrease a lot, especially in financial sector, since EU exit could reduce the importance of the UK as the financial market and as a center for providing professional services in other areas of business.

Trading under WTO Rules

If none of the previously mentioned arrangements is acceptable for the UK government, trade relations with the EU will be established under the terms of WTO. In that case, the UK would regain sovereignty over its trade policy and foreign trade relations and would not be obliged to pay for the EU budget on any basis, nor to abide by the EU regulations. However, this comes with a high price. WTO requires from its members to apply the principle of non-discrimination in foreign trade and treat other members equally, which means that if one country is given the more favorable treatment, by decreasing tariffs on its goods for example, all other member states have to be treated in that same way. The UK would face both tariff and non-tariff barriers on the single market, which would make its export less competitive and some sectors of the economy particularly vulnerable. And if it decided to treat the EU exporters the same way, it is important to keep in mind that all customs measures imposed on the EU goods would have to be applied to all other countries with which there is no special trade agreement negotiated. On the other hand, if tariffs on the EU goods are eliminated, the same has to be applied to goods from all the other WTO members. Within WTO has not been achieved much in the terms of liberalizing trade in services, so establishing trade relations with the EU this way would cause even more serious consequences in the services sector.

Trade Negotiations with Countries Outside the EU

The EU has reached free trade agreements with many countries, giving its members a free access to their markets. However, once it leaves the Union, the UK will not be able to rely on the EU bilateral trade agreements that have already been signed, but will have to, as an independent entity, renegotiate with each of these countries. This process will not be simple at all. It will take a lot of time and other resources as well. During that period, access to the overseas markets will be quite uncertain for the UK exporters who will face high trade barriers. It should be also kept in mind that for many countries a free trade agreement with Britain would not be even closely significant as one with the EU, considering the difference in market size and opportunities it gives. The negotiating power of a country is a key to success in international arrangements and foreign trade relations. Already a very open economy, the UK will not be in strong position in international negotiations, especially with world's most powerful economies. Due to its size and market development, the EU has a huge influence in trade relations with other countries, which Britain alone cannot count on. Nevertheless, there is large number of those who disagree with claims that the UK only as a part of the Union has an opportunity to demonstrate its impact on a global scale. Besides that, subordinating to the decisions of the EU as a whole, and accepting common goals is not always in the best national interests of the UK. Furthermore, outside the EU, British Government will be able to independently represent itself in world trade institutions and act according to its own needs and benefits. Those who see the future of the UK outside the EU often advocate for the establishment of closer trade relations with countries of Commonwealth which spreads over five continents and comprises both developed and developing countries. Mutual similarities, such as language, law and business practice, reduce trade costs significantly and are considered to be the main advantage of potential Commonwealth Free Trade Area. Another possible trade agreement that is often mentioned is formation of North-Atlantic Free Trade Area by joining the North American Free Trade Agreement (NAFTA), which is signed by the United States, Canada and Mexico. However, claims that the UK separately from the EU could conduct its foreign trade more successfully and that would still have a great impact in international trade negotiations should be taken with caution since they are often based on mere predictions. Outside the Union, Britain will be left out of from all future EU agreements, so missed opportunities and potential losses could be even bigger. The economic implications of Brexit are certainly much more significant for the UK than the rest of the world (Oxford Economics, 2016).

CONCLUSION

Based on previous analyses, there is no doubt that membership of the EU has helped the UK achieve its main goals when it comes to trade with its largest foreign trade partners – to establish stable relations and minimize costs of trade. Although Euroskeptics argue that membership provides insufficient benefits, given the extensive EU regulation and restrictions in trade with third countries, researches show otherwise. The EU membership has contributed considerably to the growth of the UK's trade with other member states and its exports to third countries, without notable trade diversion from other major trading partners. Even though the common services market has not given desired results yet, it cannot be expected that conditions in this sector will become better for Britain outside the EU. The exit will inevitably bring a hard choice to make: retain the free access to the single market, but under conditions dictated by Brussels, abiding by the rules without any possibility to influence the regulatory process, or regain full independence and liberate from the EU regulations, but without unrestricted access to the EU market and free trade with its main trading partners.

Leaving the EU will probably not result in losing all trade gains, but it will certainly depend on negotiated arrangement between the UK and the Union. According to economic experts, the free trade agreement appears to be the most likely outcome, but it is currently impossible to determine precisely what would it cover. Certainly the best for the UK would be to retain as close as possible trade relations with the EU and unrestricted access to the single market. Nevertheless, it is clear that none of the alternatives can be compared to the membership regarding the benefits. Outside the Union, further activities on the EU market will be significantly constrained; Britain will not be able to influence the further liberalization of the trade in services, while in some sectors a loss of investments is inevitable. Furthermore, her position in future trade negotiations with the rest of the world will definitely not be as strong as it is now when it is a part of integration. Higher foreign trade barriers will negatively affect British exporters who are going to face increased costs and more difficult trade terms. Considering the positive impact that exports have on the economy of a country and that its growth multiplies the national income, it is clear that such circumstances could cause considerable negative consequences to the national economy.

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ЕФЕКТИ МЕЂУНАРОДНЕ ЕКОНОМСКЕ ДЕЗИНТЕГРАЦИЈЕ НА ПРИМЕРУ БРЕГЗИТА

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Резиме

Иако је последњих година, па и деценија, присутан тренд све чвршћег повезивања земаља ради заједничког деловања и наступа на светској политичкој и економској сцени, тренутно сведочимо нечему сасвим супротном. Једна од најмоћнијих интеграција у свету – Европска унија – налази се пред незгодним тестом: први пут у својој историји суочава се са намером неке од чланица да се осамостали. Иако се на чланство не може гледати као на искључиво економско питање јер је оно знатно шире од тога, више политичко, економски разлози за останак у Европској унији су јасни. Различите студије, у којима су коришћени другачији модели и технике, дошле су до истих резултата: након изласка, у спољнотрговинским односима ће доћи до великих промена, које ће се неповољно одразити на бруто друштвени производ Велике Британије, што је подржало став оних који су заговарали останак – да ће „брегзит" значајно наудити британској економији.

Често се као велика препрека у преговорима Европске уније са осталим земљама наводи њен аграрни протекционизам и противљење појединих чланица да либерализују своја тржишта услуга. Из тих разлога, многи сматрају да би Велика Британија самостално могла лакше да оствари повољније трговинске споразуме, због отворености свог сектора услуга, залагања за слободну трговину и непостојања аграрног протекционизма. Међутим, политика аграрног протекционизма више не представља препреку међународној трговинској либерализацији као некада с обзиром на то да је ценовна подршка смањена. Када је реч о услужном сектору, тешко је замислити да ће Британија имати више успеха у самосталним преговорима и приступу тржишту неке земље каква је, на пример, Индија, јер сигурно неће имати много тога да понуди или бар не толико као сада док је била део интеграције. Они који будућност Велике Британије виде изван Европске уније врло често се залажу за успостављање присних трговинских односа са осталим земљама Комонвелта. Као главне предности наводе се међусобне сличности, попут језика и пословног права, које могу бити веома значајне за трговину.

Веома је тешко са сигурношћу утврдити какве ће све економске промене изазвати повлачење из Европске уније и којег интензитета јер ће то првенствено зависити од постигнутих договора. Једна од области у којој ће последице свакако бити веома изражене јесу спољнотрговински односи. Узимајући у обзир бројна истраживања и предвиђања економиста, као и тренутне реакције на изгласан и тек покренут процес изласка, може се наслутити да би напуштање Европске уније могла бити грешка катастрофалних размера, са одређеним ефектима који ће се нагло испољити већ у кратком року, али имати још озбиљније дуготрајне последице по британско острво у будућности.